THE OSLO ALBERTA OIL SANDS PROJECT FROM ALBERTA'S PERSPECTIVE

Alberta

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The OSLO project, the third integrated oil sands plant in Alberta, will require a major contribution by Alberta. In turn Albertans will receive major benefits in the form of a return on their contribution and associated economic benefits such as increased employment, increased economic stability, and spin-off benefits.

WHAT IS ALBERTA'S PARTICIPATION IN THE OSLO PROJECT?

Alberta's contribution to the project will be provided in a number of forms, some of which require a direct injection of funds, others of which are of a contingency or back-up nature such as loan guarantees. The specific mechanisms are summarized below.

Financing Mechanism	Alberta Contribution
Oslo Development Incentive	$425 million - to be drawn at rate of 12.5% of eligible capital costs until the maximum is reached
Indexed Development Incentive	up to $112 million - provides up to 2.8% of eligible capital costs, depending on the extent actual prices are below US$21/bbl (1988$)
Loan Guarantee	up to $600 million - guarantee to all equity owners exclusive of Alberta Oil Sands Equity; guarantee secured by assets of the project
Interest Assistance	
Pre-Production	up to $125 million - 37.5% of interest costs of owners on guaranteed loans
Post-Production	up to $125 million - if prices after production start-up are below US$25/bbl (1988$) then up to 25% of interest payable will be covered
Temporary Financing Facility	up to $62.5 million - to cover cashflow deficiencies caused by debt servicing of guaranteed loans

WHAT IS ALBERTA'S RETURN ON ITS PARTICIPATION?

Just as Alberta's participation in the project takes several forms, so does its return. Unlike the participation which has specified limits, the return is open-ended and will depend on revenue and costs over the life of the project. The specific mechanisms of return to Alberta are:

Return Mechanism	Level of Return
Net Profits Interest	Up to an 8% net profits interest of project operating revenues will be earned once repayment of loan, interest assistance and the temporary financing facility has been made. The level of the NPI will be indexed for oil prices below US$30/bbl. It will remain in place for 35 years.
Royalty	The royalty will commence at 1% of gross production, increasing every 24 months until it reaches a maximum of 5%. Royalties may be deferred during the pre-payout period in the event that prices are low. Any deferred royalties will be repaid, with 10% interest, by means of a 2% increment in the net revenue royalty rates following project payout. After Project Payout, the royalty will be the greater of 5% of gross producion or 25% of net revenues. Two years after the guaranteed loans, interest assistance and TFF have been repaid, Alberta's royalty will increase to the greater of 5% of gross production or 30% of net revenues.
Loan Guarantee Fees	A 0.5% guarantee fee will be levied annually on any outstanding loan balances.
Interest Assistance Recovery	All interest assistance (up to $125 million pre-production and up to $125 million post-production), will be fully repaid by the Project Owners interest free, after the guaranteed loan is repaid.

Employment

The OSLO project will employ a large labor force during both the engineering design and construction phase, as well as the operations phase. The following table shows the direct and indirect employment generated in Alberta by this project. It also includes the spin-off employment created by the large natural gas requirements of the project:

Design and Construction (6 years)	
Direct	3,100 Jobs
Indirect	3,400 Jobs
Operations (35 years)	
Direct	2,770 Jobs
Indirect	2,700 Jobs
Natural Gas Purchases (33 Bcf/yr)	
Direct	330 Jobs
Indirect	350 Jobs

Spin-off Benefits

The two existing oil sands plants have resulted in the development and growth of manufacturing and service facilities in various parts of Alberta to meet the needs of these projects and their employees. The OSLO project will add to this momentum.

Alberta is a world leader in oil sands mining technology. The development of the OSLO project will encourage continued technological advances in this area. This technology itself can be exported to the benefit of Albertans.

Investment in the OSLO oil sands plant will have a direct effect on the local communities and other major centres in Alberta. The required construction materials and equiment are expected to be 70% Canadian, with Alberta providing approximately 40%.

Integrated oil sands provide a relatively stable employment base. The project output remains at a high level throughout the project life, unlike conventional oil pools which go into decline after a five to ten year period. This characteristic means the OSLO project will provide a long term stable addition to the overall economy of Alberta.

Oil Sands : Facts and Figures

- Massive oil sands underlying 60,000 square kilometres (approximately 23,200 square miles) of Alberta contain one of the world's largest known reserves of recoverable oil.
- Northern Alberta's oil sands consist of a black, tar-like mixture of sand, clay, water and bitumen. Bitumen is a naturally occurring viscous mixture of hydrocarbons which in its natural state is not liquid enough to flow to a well without external stimulation; for example, injecting steam to make it less viscous.
- The oil sands are partially exposed along the banks of the Athabasca River, north and south of Fort McMurray in northeastern Alberta.
- They were noted in the journals of Peter Pond, Alexander MacKenzie and David Thompson in the 1700s.
- Early this century, some Edmonton streets were paved with oil sands, and asphalt manufacturing continues to be an important market for bitumen today.
- Long before Alberta was a province, Indians in northeastern Alberta used heavy black tar from the banks of the Athabasca to seal seams in their canoes.
- Today it is known that oil sands are primarily concentrated in four major deposits: Athabasca, Cold Lake, Peace River and Wabasca.
- Mineable deposits – those which lie approximately 77 metres (about 250 feet) or less of overburden – cover approximately 3,250 square kilometers (about 1,250 square miles) over seven per cent of the total area of the Athabasca oil sands deposit.
- The Syncrude and Suncor mining operations extract the bitumen from the oil sands and upgrade it to synthetic crude oil. In 1987 synthetic crude accounted for about 14 per cent of all crude oil and equivalent produced in Alberta.
- In 1967 the Great Canadian Oil Sands (GCOS) project, now Suncor, became the first oil sands mining operation in the Athabasca region.
- Oil sand is actually removed, or mined from the ground at the Suncor or Syncrude sites and the bitumen is then extracted. Bitumen is subsequently upgraded into synthetic crude oil and the land is reclaimed.
- The Syncrude oil sands recovery project near Fort McMurray is the biggest in the world. Built at a cost of $2.3 billion, it began operations in 1978, and is a consortium of corporate and government investors.
- Ultimate recoverable reserves of bitumen are estimated at about 300 billion barrels, but that amount represents only about 12 per cent of the total oils sands resource.
- "In Situ" (Latin for "in place") is the other basic recovery method for oil sands deposits.
- For in situ projects, special techniques are used to release the bitumen from the sand while it is still in the ground. The heavy oil is heated in place to reduce its viscosity, then it can be pumped to the surface by regular drilling methods.
- Esso's Cold Lake project and the BP/Petro-Canada Wolf Lake project are examples of in situ techniques.
- Seventy percent of the worlds expenditures on oil sands are made in Alberta.
- The technology to commercially produce synthetic crude oil from oil sands is a new and uniquely Canadian industry. Eventually, this technology may permit recovery of enough synthetic crude oil to overtake conventional crude oil in importance.
- In terms of geological potential, almost 90 per cent of Canada's total remaining unexploited oil resource base is estimated to be bitumen from Alberta's oil sands.